

GENERAL FUND TAXES

1. GENERAL FUND TAX CHANGES

Governor: The following table shows the general fund tax changes recommended by the Governor, along with their estimated fiscal effects in the 2015-17 biennium. The table does not include tax law changes that are estimated to have a minimal fiscal effect. The table also does not include changes to refundable tax credits, because they are paid from appropriations rather than recorded as a reduction in tax revenues.

2015-17 General Fund Tax Changes -- Governor (In Millions)

	<u>2015-16</u>	<u>2016-17</u>	<u>2015-17 Biennium</u>
Income and Franchise Taxes			
Add Auditors and Debt Collectors	\$18.00	\$59.00	\$77.00
Limit Historic Rehabilitation Credit	0.00	7.80	7.80
Sunset Economic Development Credit*	2.25	7.50	9.75
General Sales and Use Tax			
Add Auditors and Debt Collectors	13.50	23.00	36.50
Delay Private Label Credit Card Law	<u>10.70</u>	<u>11.10</u>	<u>21.80</u>
Total Tax Changes	\$44.45	\$108.40	\$152.85

*Under the bill, the economic development credit, which is not refundable, and the refundable jobs tax credit, would be sunset and replaced with a refundable business development tax credit for tax years beginning after December 31, 2015. As noted above, the impacts of refundable tax credits are not shown in the table, because they are accounted for as state expenditures rather than revenue offsets.

Joint Finance: The following table shows the estimated fiscal effects of the tax law changes adopted by the Joint Committee on Finance.

2015-17 General Fund Tax Changes -- Joint Finance
(In Millions)

	<u>2015-16</u>	<u>2016-17</u>	<u>2015-17 Biennium</u>
Income and Franchise Taxes			
Add Auditors and Debt Collectors	\$18.00	\$59.00	\$77.00
Limit Historic Rehabilitation Credit	-0.50	-0.50	-1.00
Sunset Economic Development Credit	2.25	7.50	9.75
Federalize Minimum Tax Exemptions	0.00	-6.00	-6.00
Standard Deduction for Married Filers	0.00	-20.90	-20.90
Decrease Manufacturing and Agriculture Credit in 2015	16.80	0.00	16.80
Repeal Exclusion for Job Creation	2.70	2.70	5.40
ABLE Accounts	-0.31	-0.70	-1.01
Edvest Changes	-0.20	-0.90	-1.10
Deduction for Teachers' Expenses	-1.10	-1.10	-2.20
Sales and Excise Taxes			
Add Auditors and Debt Collectors	13.50	23.00	36.50
Delay Private Label Credit Card Law	10.70	11.10	21.80
Exemption for Construction Materials	-3.50	-7.50	-11.00
Exemption for Amusement Devices	-0.10	-0.20	-0.30
Exemption for Deer	-0.07	-0.14	-0.21
Impose Wine tax on Pear Cider	-0.13	-0.25	-0.38
Increase Cigarette Tax Discount	<u>-0.50</u>	<u>-0.60</u>	<u>-1.10</u>
Total Tax Changes	\$57.55	\$64.51	\$122.06

The next table presents a comparative summary of the general fund tax changes recommended by the Governor and the Joint Committee on Finance. The table shows the proposals' estimated biennial fiscal effects.

	<u>Governor</u>	<u>Joint Finance</u>	<u>Change to Governor</u>
Income and Franchise Taxes			
Add Auditors and Debt Collectors	\$77.00	\$77.00	\$0.00
Limit Historic Rehabilitation Credit	7.80	-1.00	-8.80
Sunset Economic Development Credit	9.75	9.75	0.00
Federalize Minimum Tax Exemptions	0.00	-6.00	-6.00
Standard Deduction for Married Filers	0.00	-20.90	-20.90
Decrease Manufacturing and Agriculture Credit in 2015	0.00	16.80	16.80
Repeal Exclusion for Job Creation	0.00	5.40	5.40
ABLE Accounts	0.00	-1.01	-1.01
Edvest Changes	0.00	-1.10	-1.10
Deduction for Teachers' Expenses	0.00	-2.20	-2.20
Sales and Excise Taxes			
Add Auditors and Debt Collectors	36.50	36.50	0.00
Delay Private Label Credit Card Law	21.80	21.80	0.00
Exemption for Construction Materials	0.00	-11.00	-11.00
Exemption for Amusement Devices	0.00	-0.30	-0.30
Exemption for Deer	0.00	-0.21	-0.21
Impose Wine tax on Pear Cider	0.00	-0.38	-0.38
Increase Cigarette Tax Discount	<u>0.00</u>	<u>-1.10</u>	<u>-1.10</u>
Total Tax Changes	\$152.85	\$122.06	-\$30.80

Income and Franchise Taxes

1. EARNED INCOME TAX CREDIT [LFB Papers 215 and 313]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	\$2,110,000	- \$16,310,000	- \$14,200,000
PR	<u>0</u>	<u>12,300,000</u>	<u>12,300,000</u>
Total	\$2,110,000	- \$4,010,000	- \$1,900,000

Governor: Decrease GPR funding for the earned income tax credit (EITC) by \$320,000 in 2015-16 and increase GPR funding by \$2,430,000 in 2016-17. With these adjustments, base level GPR funding of \$44,100,000 would decrease to \$43,780,000 in 2015-16 and increase to \$46,530,000 in 2016-17. Base level PR funding would remain unchanged at \$62,500,000 annually. The state credit is calculated as a percentage of the federal EITC, and is funded with a combination of GPR and PR funding. The program revenue is federal temporary assistance for needy families (TANF) funding transferred from the Department of Children and Families. The GPR portion is provided through a sum sufficient appropriation and covers the balance of the cost of the credit. Under the bill, total funding for the EITC would decrease to \$106,280,000 in 2015-16 and increase to \$109,030,000, compared to base funding of \$106,600,000.

Joint Finance: Set funding amounts for the EITC at \$36,400,000 GPR and \$67,600,000 PR in 2015-16 and \$37,600,000 GPR and \$69,700,000 PR in 2016-17 to reflect an increase in the amount of TANF revenue used for the credit and a revised estimate of the total cost of the credit. Estimate total expenditures for the credit at \$104,000,000 in 2015-16 and \$107,300,000 in 2016-17. Compared to the Governor, PR funding would be increased by \$5,100,000 in 2015-16 and \$7,200,000 in 2016-17, and GPR funding would be decreased by \$7,380,000 in 2015-16 and \$8,930,000 in 2016-17.

2. VETERANS AND SURVIVING SPOUSES PROPERTY TAX CREDIT [LFB Paper 310]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	- \$1,140,000	- \$5,400,000	- \$6,540,000

Governor: Decrease funding by \$770,000 in 2015-16 and \$370,000 in 2016-17 for the refundable veterans and surviving spouses property tax credit. With these adjustments, base funding of \$32,370,000 would be decreased to \$31,600,000 in 2015-16 and \$32,000,000 in 2016-17. The credit is equal to real and personal property taxes paid on a principal dwelling by certain veterans and surviving spouses.

Joint Finance: Reestimate the cost of the tax credit at \$28,400,000 in 2015-16 and \$29,800,000 in 2016-17. Compared to the Governor's bill, decrease estimated expenditures by \$3,200,000 in 2015-16 and \$2,200,000 in 2016-17.

3. ILLINOIS-WISCONSIN RECIPROCITY [LFB Paper 311]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	- \$4,319,000	- \$11,981,000	- \$16,300,000

Governor: Decrease the estimated payment by \$5,119,000 in 2015-16 and increase the estimated payment by \$800,000 in 2016-17 under the Illinois-Wisconsin individual income tax reciprocity agreement. Payments are estimated, compared to the base funding level of \$78,800,000, at \$73,681,000 in 2015-16 and \$79,600,000 in 2016-17.

Joint Finance: Increase the estimated payment by \$5,119,000 in 2015-16 and decrease the estimated payment by \$17,100,000 in 2016-17. Estimate the payment at \$78,800,000 in 2015-16 and \$62,500,000 in 2016-17.

4. INCREASE STANDARD DEDUCTION FOR MARRIED FILERS

GPR-Tax	- \$20,900,000
---------	----------------

Joint Finance: Set the standard deduction for tax year 2016 at \$19,010 for married couples filing jointly and at \$9,030 for married individuals filing separately. Set the income level at which the standard deduction begins to phase out for tax year 2016 at \$21,360 for married couples filing jointly and at \$10,140 for married individuals filing separately. Decrease individual income tax collections by an estimated \$20,900,000 in 2016-17. Because the standard deduction for each tax year is indexed for inflation based on the consumer price index for August of the year preceding the tax year, standard deduction amounts for tax year 2016 are unknown at this time. Based on the current economic forecast, the 2016 standard deduction for married-joint filers is estimated at \$18,460, with the deduction phasing out between adjusted gross incomes of \$20,740 and \$114,076. For the same year, the standard deduction for married-separate filers is estimated at \$8,770, with the deduction phasing out between adjusted gross incomes of \$9,850 and \$54,192. Under this provision, the deduction for married-joint filers would increase by an estimated \$550 and be set at \$19,010 in 2016, and the deduction would phase out between adjusted gross incomes of \$21,360 and \$117,477. For married-separate filers, the deduction would increase by an estimated \$260 and be set at \$9,030, and the deduction would phase out between adjusted gross incomes of \$10,140 and \$55,797.

5. ALTERNATIVE MINIMUM TAX [LFB Paper 316]

GPR-Tax	- \$6,000,000
---------	---------------

Joint Finance: Federalize the treatment of exemption amounts and exemption phaseout provisions for the Wisconsin alternative minimum tax, beginning in tax year 2017, so that future tax years reflect federal indexing adjustments for inflation as well as subsequent law changes to

the Internal Revenue Code. Decrease individual income tax collections by an estimated \$6,000,000 in 2016-17, \$25,400,000 in 2017-18, and \$29,900,000 in 2018-19.

6. DEDUCTION FOR TEACHERS' PURCHASES OF SCHOOL SUPPLIES

GPR-Tax	- \$2,200,000
---------	---------------

Joint Finance: Federalize the state tax treatment of educators' classroom expenses, effective with tax year 2015. Decrease individual income tax collections by \$1,100,000 both in 2015-16 and 2016-17. This estimate assumes the federal deduction is extended, although it expired after tax year 2014. The federal deduction was enacted on a temporary basis, but has been extended on a number of occasions and has applied in every tax year since 2002. For federal income tax purposes, elementary and secondary school teachers have been able to claim a deduction of up to \$250 per year for classroom expenses they incur.

7. COLLEGE SAVINGS PLAN MODIFICATIONS

GPR-Tax	- \$1,100,000
---------	---------------

Joint Finance: Modify current law provisions concerning the College Savings (529) Program as follows:

Amounts Subject to Tax Under the State Individual Income Tax. Modify the current law provision that designates certain distributions from college savings accounts as subject to tax under the state individual income tax, that is, the amounts are "added back" to income, as follows: (a) specify that the add-back for amounts not used for qualified expenses is limited to amounts previously deducted; and (b) create an add-back for any amount withdrawn from an account within 12 months of its contribution, if the amount was previously deducted.

Amounts Not Subject to Tax Under the State Individual Income Tax. Modify the current law provision that designates certain contributions to college savings accounts as deductions from income under the state individual income tax as follows: (a) prohibit amounts that have been previously deducted from being deducted again; (b) allow the principal amount, as opposed to earnings, in accounts rolled over into Wisconsin 529 accounts from other states' 529 accounts to be deducted, subject to annual contribution limits; (c) prohibit the carryover of excess contributions if the contribution has been withdrawn from an account within 12 months of its contribution; and (d) specify that any amount carried forward must be reduced by any amount that was withdrawn and not used for qualified educational expenses to the extent that the withdrawn amount exceeds the amount included in the add-back described above.

Extend the preceding provisions beginning in tax year 2015, and decrease individual income tax collections by an estimated \$200,000 in 2015-16 and \$900,000 in 2016-17. Other provisions increasing and indexing the limits on contributions to the account(s) of each beneficiary and providing additional program resources are described under "Administration -- General Agency Provisions."

8. QUALIFIED ABLE ACCOUNTS [LFB Paper 314]

GPR-Tax	- \$1,010,000
---------	---------------

Joint Finance: Include IRC references to the provision enacted as part of P.L. 113-295,

allowing individuals to create Achieving a Better Life (ABLE) accounts on a tax preferred basis. In addition, incorporate provisions that authorize individuals to establish and own qualified ABLE accounts, as defined under federal law, at financial institutions to pay the qualified disability expenses of the beneficiaries of the accounts. Authorize the account owner, defined as the individual who establishes and owns the account and is the beneficiary of the account or a parent or guardian of the beneficiary, provided the beneficiary is a minor or otherwise incapable of handling his or her affairs, to change the beneficiary of the account to a family member, as defined under federal law, of the previous beneficiary if the new beneficiary is an eligible individual and to terminate the account upon the death of the beneficiary if the account owner is not the beneficiary and the account owner is unable to change the beneficiary. Define beneficiary as an eligible individual, as defined under federal law, for whom an account is established.

Specify that an individual may not be a beneficiary of more than one ABLE account. Limit the total amount of annual contributions to an individual account for a particular beneficiary to the limitation under federal law for gifts (currently \$14,000) and limit the total amount of all annual contributions to an account for a particular beneficiary to the limitation on individual Edvest accounts (currently \$330,000). Require financial institutions managing ABLE accounts to return contributions that would cause accounts to exceed either limitation to the prospective contributor, and require financial institutions to prorate the amounts returned if more than one contribution arrives at the institution on the same day and in combination would result in either limitation being exceeded. Define financial institution as any bank, savings bank, savings and loan association, or credit union that is authorized to do business under state or federal laws relating to financial institutions.

Specify that an ABLE account terminates on the death of a beneficiary who is the account owner and that amounts remaining in the account are recoverable by the state under current law provisions pertaining to medical assistance, long-term community support services, or aid for the treatment of kidney disease, cystic fibrosis, or hemophilia and that any remaining amounts be paid to the account owner's estate. Limit the amounts subject to state recovery to public assistance received by the beneficiary on or after the establishment of the ABLE account.

Require the financial institution managing the account to pay any qualified expenses, defined as qualified disability expenses as defined under federal law, provided the expenses are incurred by the beneficiary and the account possesses sufficient funds to make the payment. Require persons determining eligibility for long-term care programs, family care benefits, or the family care partnership program, all as defined under state law, or for any other demonstration program or programs operated under a waiver of federal Medicaid law that provides long-term care benefits to exclude assets accumulated in an ABLE account from the determination of income. Require the Department of Administration to ensure that accounts established under the preceding provisions meet the requirements of a qualified ABLE program under federal law and to promulgate rules to implement and administer the program.

Specify that amounts deposited in ABLE accounts by the account owner or other individuals may be deducted from federal adjusted gross income and are not subject to taxation under the state individual income tax, and exclude any interest, dividends, or other gain that accrues in an ABLE account and are redeposited in the account from taxation under the state individual income tax.

Specify that amounts withdrawn from accounts are subject to taxation under the state individual income tax if the withdrawal is for any reason other than the payment of qualified expenses. Specify that any amount in an account that is returned to an account owner or an account owner's estate upon the termination of an account is subject to taxation under the state individual income tax. Exclude amounts withdrawn from ABLE accounts and used to pay unreimbursed expenses from the calculation of the itemized deduction credit under the state individual income tax to the extent that the amounts were included in the deduction for unreimbursed medical expenses for federal tax purposes.

Extend these provisions beginning in tax year 2015, except that if the general effective date of the biennial budget act is after July 31, extend the provisions beginning in tax year 2016.

Reduce individual income tax collections by an estimated \$310,000 in 2015-16 and \$700,000 in 2016-17.

9. ELIMINATE EXCLUSION FOR ATV CORRIDORS

Joint Finance: Repeal the current law provision that provides an exclusion from income for payments received by landowners as incentive for permitting public all-terrain vehicle corridors on their land under the state individual income tax, effective in tax year 2015. This provision is estimated to increase individual income tax collections by minimal amounts each year.

10. MINNESOTA-WISCONSIN RECIPROCITY [LFB Paper 312]

Joint Finance: Prohibit any new income tax reciprocity agreement from taking effect unless the agreement is approved by the Joint Committee on Finance under the procedures authorized in s. 13.101 of the statutes. This prohibition would not apply to the agreements currently in effect with Kentucky, Illinois, Michigan, or Indiana.

11. RELAX INCOME TAX CHECK-OFF LIMITS

Joint Finance: Modify the current law provision that eliminates any income tax check-off from tax forms that does not generate at least \$75,000 in contributions in the previous tax year, beginning in tax year 2015, by basing the threshold on the three-year average of contributions and by lowering the threshold to \$50,000, beginning with contributions made in tax year 2014.

12. INTERNAL REVENUE CODE UPDATE [LFB Paper 314]

Governor: Update statutory references to the Internal Revenue Code (IRC) under the state individual and corporate income and franchise taxes. For tax years beginning after December 31, 2013, create provisions adopting IRC provisions in effect as of December 31, 2013, with exceptions. Also, for tax years beginning after December 31, 2013, adopt IRC provisions included in the following public laws that were enacted after December 31, 2013: (a) P.L. 113-97, the Cooperative and Small Employer Charity Pension Flexibility Act; (b) P.L. 113-

159, the Highway and Transportation Funding Act of 2014; and (c) P.L. 113-168, the Tribal General Welfare Exclusion Act of 2014. Specify that the provisions of federal public laws that directly or indirectly affect the IRC apply for state tax purposes at the same time as for federal tax purposes. Modify provisions relating to tax years beginning before January 1, 2014, to include IRC modifications made in P.L. 113-168, and repeal obsolete provisions pertaining to tax years beginning after December 31, 2002, and before January 1, 2004.

P.L. 113-97 pertains to a definition, rules, and funding standards for cooperative and small employer charity pension plans. P.L. 113-159 pertains to minimum funding requirements for single-employer defined benefit pension plans. P.L. 113-168 clarifies the treatment of general welfare benefits provided by Indian tribes. Under the budget bill, the P.L. 113-168 provisions would extend to tax years beginning after December 31, 2013, and would also apply to tax years 2009 through 2013. The provisions would be made retroactive because they clarify current law treatment.

For state tax purposes, the Wisconsin statutes currently adopt IRC provisions enacted through December 31, 2010. The bill would adopt IRC provisions enacted in 2011, 2012, and 2013, with exceptions. Over those three years, 16 public laws containing IRC provisions were enacted, and the bill would adopt most of those changes. The bill would not adopt one section of P.L. 112-95, the FAA Modernization and Reform Act of 2012, and eight sections of P.L. 112-240, the American Taxpayer Relief Act of 2012. As noted above, the bill would also include references to three of the five public laws enacted in 2014 containing IRC provisions, but would not include references to P.L. 113-92, the Philippines Charitable Giving Assistance Act, and P.L. 113-295, the Tax Increase Prevention Act of 2014. While the former is expected to have limited significance to Wisconsin taxpayers, the latter contains numerous provisions affecting Wisconsin taxpayers. However, a number of those provisions are scheduled to sunset after the 2014 tax year, including one-year extensions for 50% bonus depreciation and Section 179 expenses.

Under a 2013 Act 20 change, the state tax treatment of depreciation refers to IRC provisions in effect on January 1, 2014. Therefore, even though P.L. 113-295 extended bonus depreciation for an additional year, bonus depreciation is not available for state tax purposes in tax year 2014. However, federal and state tax treatment will be the same for most property in tax year 2015, unless Congress extends bonus depreciation again. Under a separate Act 20 change, state taxpayers are generally subject to current Section 179 IRC provisions. For federal and Wisconsin tax purposes in tax year 2014, Wisconsin taxpayers may elect to deduct up to \$500,000 of the cost of qualifying property, rather than taking depreciation over a specified recovery period. Also, the deduction for a claimant is subject to a total investment limit of \$2 million for property placed in service in a single tax year. Beginning in tax year 2015, the deduction limit for federal and Wisconsin tax purposes will fall from \$500,000 to \$25,000 and the total investment limit will fall from \$2 million to \$200,000. However, any future federal law changes to the Section 179 deduction will automatically be adopted under state law.

The Department of Revenue (DOR) indicates that the pension provisions in P.L. 113-97 and P.L. 113--159 would have a minimal fiscal effect (less than \$1,000). No fiscal estimate is reported relative to the other provisions that would be adopted.

Joint Finance: Modify the Governor's recommendation by including IRC references to

the following provisions enacted in December, 2014: (a) two P.L. 113-295 provisions that correct technical errors and eliminate obsolete provisions in the IRC; (b) two P.L. 113-295 provisions relating to the treatment of multiemployer pension plans that are either experiencing funding shortfalls or are underfunded; (c) the P.L. 113-295 provision relating to the definition of qualified tuition programs and limiting contributors and designated beneficiaries from directing investments to no more than two times per calendar year; (d) the P.L. 113-295 provision that excludes dividends received by a U.S. shareholder from a controlled foreign corporation from the definition of personal holding company income for purposes of the related rules; and (e) the P.L. 113-287 provisions regarding the taxability of certain National Park Service grants to individuals and small businesses.

13. ENTERPRISE ZONE TAX CREDIT SUM SUFFICIENT REESTIMATE [LFB Paper 318]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	- \$10,600,000	\$13,800,000	\$3,200,000

Governor: Decrease funding by \$700,000 in 2015-16 and \$9,900,000 in 2016-17 for the sum sufficient appropriation for enterprise zone tax credits to reestimate claims during the biennium. The reestimate reflects projections of credit claims for major economic development projects for which the Wisconsin Economic Development Corporation (WEDC) has, to date, awarded tax credits. With the adjustments, estimated total funding would decrease from \$51,200,000, annually, to \$50,500,000 in 2015-16 and \$41,300,000 in 2016-17. Businesses that operate in enterprise zones established by WEDC can claim refundable tax credits for jobs created and retained, training, capital expenditures, and purchases from Wisconsin vendors.

Joint Finance: Reestimate the sum sufficient appropriation for enterprise zone jobs credits at \$52,500,000 in 2015-16 and \$53,100,000 in 2016-17. Compared to the Governor's bill, the reestimate would increase the appropriation by \$2,000,000 in 2015-16 and by \$11,800,000 in 2016-17.

14. INCREASE THE NUMBER OF ENTERPRISE ZONES [LFB Paper 327]

Governor/Joint Finance: Increase the number of enterprise zones that WEDC may designate from 20 to 30. Under current law, WEDC may designate certain areas as enterprise zones based on criteria specified in state law and the Corporation's policies. The administration indicates that this provision would not have a fiscal effect in the 2015-17 biennium, but would increase estimated expenditures from the sum sufficient enterprise zone jobs credit appropriation by \$12.1 million in 2017-18, \$16.9 million in 2018-19, \$24.1 in 2019-20 through 2023-24, \$21.7 million in 2024-25, \$14.5 million in 2025-26, \$7.2 million in 2026-27, and \$0 in 2027-28 and annually thereafter.

15. CONVERT JOBS TAX CREDIT APPROPRIATION TO SUM SUFFICIENT [LFB Paper 317]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR-Lapse	\$0	\$22,000,000	\$22,000,000

Governor: Convert the jobs tax credit appropriation, which makes payments of refundable jobs tax credits to eligible claimants, from a continuing appropriation to a sum sufficient appropriation. The administration does not expect this change to have a significant fiscal impact.

Joint Finance: Increase the estimated amount lapsed to the general fund in 2015-16 by \$22,000,000. Under the state's accounting system, the balance carried forward from one fiscal year to the following fiscal year in a continuing GPR appropriation is set aside for the appropriation's designated use and is not available for other uses. According to the State Comptroller's Office, converting a continuing GPR appropriation to a sum sufficient appropriation would lapse the carryover authority to the general fund. Net of estimated 2014-15 expenditures, the balance on July 1, 2015, for the jobs tax credit appropriation is estimated at \$22,000,000, on which date those monies would become available in the general fund.

16. JOBS TAX CREDIT REESTIMATE [LFB Paper 317]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	- \$2,000,000	- \$2,600,000	- \$4,600,000

Governor: Decrease funding by \$1,000,000, annually, for the jobs tax credit appropriation to reestimate tax credit claims during the biennium. With the adjustment, total annual funding would decrease from \$18,000,000 to \$17,000,000. This amount assumes that WEDC will allocate all of the \$10 million of jobs credits allowed by statute and that \$7 million of unused angel and early-stage seed tax credits will be reallocated to the jobs credit in each year. The jobs tax credit equals 10% of the wages paid to an eligible employee and/or the amount of costs incurred to undertake training activities in the year.

Joint Finance: Reestimate the amount of GPR funding necessary to pay for the jobs tax credit at \$13,600,000 in 2015-16 and \$17,800,000 in 2016-17. Compared to the Governor's bill, the reestimate would reduce the amount in the appropriation by \$3,400,000 in 2015-16 and increase the amount in the appropriation by \$800,000 in 2016-17.

17. CONSOLIDATE CREDITS UNDER CURRENT LAW INTO THE BUSINESS DEVELOPMENT CREDIT [LFB Papers 327 and 328]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	\$0	\$1,750,000	\$1,750,000
GPR-Tax	\$9,750,000	\$0	\$9,750,000

Governor: Sunset the nonrefundable economic development tax credit and the refundable jobs tax credit for taxable years beginning after December 31, 2015. Create the refundable business development tax credit for taxable years beginning in 2016. Specify that the business development tax credit may be used against the individual income tax, including the alternative minimum tax, and the corporate income/franchise tax. According to the administration, repealing the jobs tax credit would reduce GPR expenditures by \$2,500,000 in 2016-17 and \$10,000,000 in 2017-18 and annually thereafter. Creation of the business development credit is estimated to increase GPR expenditures by \$2,500,000 in 2016-17 and \$10,000,000 in 2017-18 and annually thereafter. The administration indicates that the sunset of the economic development credit would increase state tax revenues by an estimated \$2,250,000 in 2015-16, and \$7,500,000 in 2016-17, and \$9,000,000 in 2017-18 and annually thereafter. These estimates reflect the fact there is a lag between the time when these credits are awarded and when they are actually claimed.

Under current law, the nonrefundable economic development tax credit is available to persons that conduct a job creation, capital investment, employee training, or corporate headquarters location or retention project and are certified by WEDC to receive such credits. The refundable jobs tax credit equals up to 10% of the wages paid to an eligible employee and/or the amount of costs incurred to undertake training activities in a tax year, as determined by WEDC. Economic development tax credits and jobs tax credits certified for taxable years beginning after December 31, 2008, and before January 1, 2016, could be carried forward under the bill for taxable years beginning after December 31, 2015.

Under the bill, the newly created Forward Wisconsin Development Authority (FWDA) could certify a person bill to receive the following as a credit against state income and franchise taxes:

- a. The amount of wages that the claimant paid to an employee in an eligible position (a full-time job) in the taxable year, not to exceed 10% of such wages, as determined by FWDA;
- b. In addition to "a", the amount of wages that the claimant paid to an employee in an eligible position in that taxable year, not to exceed 5% of such wages, if the employee is employed in an eligible position at the claimant's business in an economically distressed area, as determined by FWDA;
- c. The amount of training costs that the claimant incurred, not to exceed 50% of such costs, as determined by FWDA, to undertake activities to enhance an employee's general

knowledge, employability, and flexibility in the workplace; to develop skills unique to the person's workplace or equipment; or to develop skills that will increase the quality of the person's product;

d. The amount of the personal property investment, not to exceed 3% of such investment, and the amount of the real property investment, not to exceed 5% of such investment, in a capital investment project, as determined by FWDA, provided the project involves a total capital investment of at least \$1 million, or the project involves a capital investment that is equal to at least \$10,000 per employee employed on the project if less than \$1 million; and

e. An amount, as determined by FWDA, equal to a percentage of the amount of wages that the person paid to an employee in an eligible position in the taxable year, provided the eligible position was created or retained in connection with the person's location or retention of the person's corporate headquarters in Wisconsin and the job duties associated with the eligible position involve the performance of corporate headquarters functions.

In order to be certified to receive business development tax credits, a person would have to operate or intend to operate a business in this state and enter into a contract with the Authority. Certifications would remain in effect for up to 10 years. A person would be eligible to receive tax benefits if, in each year for which the person claims the credit, the person increases net employment in this state in the person's business above the level during the year before the person was certified, as determined under FWDA's policies and procedures.

FWDA could allocate up to \$10 million in business development tax credits in any calendar year. Any unused allocation could be carried forward to future tax years. In addition, WEDC could reallocate any unused angel and early stage seed tax credits to the new credit in any calendar year under a 14-day passive review of the Joint Committee on Finance.

FWDA would have to notify DOR, on at least a quarterly basis, when the Authority certifies a person to receive credits. FWDA would also have to notify DOR within 30 days of revoking a certification for business development tax credits. FWDA could require a person to repay any tax benefits the person claims for a year in which the person failed to maintain an eligible position, as required by an agreement with the Authority. The Authority would have to determine the maximum amount of the tax credits that a certified business could claim, and notify DOR of this amount on at least a quarterly basis. FWDA would have to verify, annually, the information submitted to it by the person claiming credits. In addition, FWDA would be required to adopt policies and procedures for the implementation and operation of the credits.

Partnerships, limited liability companies (LLCs), and tax-option corporations (S corporations) could not claim the business development credit, but the eligibility for, and the amount of, the credit would be based on their payment of amounts eligible for the credit. A partnership, LLC, or S corporation would have to compute the amount of credit that each of its partners, members, or shareholders could claim and would have to provide that information to each of them. Partners, members, and shareholders could claim the credit in proportion to their ownership interests. The claimant would have to include a copy of the claimant's certification for tax benefits with the claimant's return in order to claim the credit.

DOR would be authorized to administer the credit, and take any action, conduct any proceeding, and proceed as authorized under state income and franchise tax laws. State tax provisions related to timely claims, assessments, refunds, appeals, collection, interest, and penalties would apply to the credit.

As noted, the new credit would be refundable. If the allowable amount of the credit claimed exceeds the tax otherwise due, the amount of the claim not used to offset the tax due would have to be certified by DOR to the Department of Administration (DOA) for payment by check, share draft, or other draft drawn from the sum sufficient business development tax credit appropriation.

The bill would also delete statutory references to the following tax credits that are no longer available under state law: (a) development zones daycare credit; (b) development zones environmental remediation credit; (c) development zones investment credit; (d) development zones jobs credit; (e) development zones location credit; (f) development zones research credit; and (g) development zones sales tax credit.

Certain drafting errors are included in the current version of the Governor's bill with regard to: (a) the sunset date for awarding economic development tax credits and jobs tax credits; (b) against which taxes the businesses development tax credit could be claimed; (c) the reallocation of angel and early stage seed tax credits that could be used for business development tax credits; and (d) the availability of credits based on the claimant's corporate headquarters being located in Wisconsin. The above description of the credit reflects the administration's intent. However, an amendment would be needed to make the bill consistent with the Governor's intent.

Joint Finance: Approve the provisions recommended by the Governor, but specify that these provisions would apply to WEDC, rather than FWDA. In addition, make the following changes recommended by the administration to: (a) clarify that the sunset date for awarding economic development tax credits and jobs tax credits is December 31, 2015; (b) allow an eligible claimant to claim the economic development tax credits and jobs tax credits in accordance with a contract, or a letter of intent to enter into a contract, that the claimant entered into with WEDC prior to the sunset date of the credits; (c) delete extraneous language in the bill related to allowing credit carryforwards for the economic development tax credit and the jobs tax credit; (d) clarify that the definition of an "eligible position" means a person employed in a full-time job by a person certified to claim a business development tax credit; (e) clarify that the 5% credit for wages paid in an economically distressed area is in addition to the proposed 10% credit for additional wages paid to any eligible claimant; (f) clarify that the credit for real and personal property investments is up to, rather than equal to, the recommended percentages; (g) clarify that the credit could be claimed against state income or franchise taxes, including the alternative minimum tax; (h) clarify that unused angel and early stage seed tax credits could be reallocated to the business development tax credit using the approval procedure currently used for reallocations to the jobs tax credit; and (i) correct an inconsistent provision regarding the credit for corporate headquarters being located in Wisconsin.

Increase the annual limit recommended by the Governor for the amount of business

development tax credits that WEDC may allocate during a calendar year from \$10 million per year to \$17 million in 2016 and \$22 million in 2017 and annually thereafter. As compared to the Governor's bill, increase estimated GPR expenditures for the credit by \$1,750,000 in 2016-17, \$8,250,000 in 2017-18, and \$12,000,000 in 2018-19 and annually thereafter.

18. LIMIT THE SUPPLEMENT TO THE FEDERAL HISTORIC REHABILITATION TAX CREDIT FOR CERTIFIED HISTORIC STRUCTURES [LFB Paper 324]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR-Tax	\$7,800,000	- \$7,800,000	\$0

Governor: Make the following changes regarding the state supplement to the federal historic rehabilitation tax credit for certified historic structures:

Annual Limit. Limit the amount of tax credits that may be certified by WEDC in any calendar year to no more than \$10 million.

Certification Criteria. Provide that, in determining whether to certify a person for a tax credit, WEDC would have to consider all of the following with respect to the activity for which the tax credit is claimed: (a) the number of full-time jobs that may be created; (b) the anticipated benefit to the state of the activity relative to the cost to the state of the tax credit; (c) the projected impact of the activity on the local economy; (d) whether the activity or investments associated with the activity would occur without the tax credit; and (e) the number of credits that have been certified in the same county or municipality in prior years.

Clawback Provisions. Require that, for four years following receipt of a credit, the original claimant would have to report to WEDC the total number of full-time jobs created by the activity for which the credit was claimed. Require WEDC to report to DOR, at least once each calendar quarter, any claimant whose activity created fewer full-time jobs than projected. In addition, require WEDC to report to DOR the name, address, and tax identification number of the claimant, and the number of full-time jobs projected and created. WEDC would have to adopt policies and procedures for the administration of the credit, including all of the following: (a) process by which applicants may apply for certification; (b) certification of the tax credit; (c) reporting requirements for certified claimants; and (d) process and criteria for revocation of certification.

If the activity for which a person claims a supplement to the federal historic rehabilitation tax credit creates fewer full-time jobs than projected, as reported to DOR in the manner described above, the person who claimed the credit would have to repay DOR any amount of the credit claimed, as determined by the Department, in proportion to the number of full-time jobs created compared to the number of full-time jobs projected. If a person sold or transferred the credit in the manner prescribed under state law, the person who initially sold or transferred the credit is responsible for repaying the credit to DOR.

If a person who claims the credit under state law and under federal law for the same qualified rehabilitation expenditures is required to repay the full amount of the federal credit, that person would have to repay to the full amount of the state credit that was claimed. Federal repayment requirements are triggered when the rehabilitated property is disposed of or otherwise ceases to be eligible investment property of the claimant within five years. An amendment would be required to achieve the administration's intent regarding this provision.

Non-Profit Claimants. Clarify that only nonprofit entities under section 501(c)(3) of the Internal Revenue Code may claim the credit and then sell or otherwise transfer it to taxable entities as permitted under state law. IRC section 501(c)(3) applies to certain charitable organizations. The recommended change is intended to ensure that governmental entities do not claim the credit and then transfer it to a taxable entity.

These provisions would first apply to taxable years beginning on January 1, 2016, and would take effect on that date. The administration estimates that these provisions would increase state tax revenues by \$7,800,000 in 2016-17, \$15,600,000 in 2017-18, \$28,200,000 in 2018-19, and \$31,000,000 in 2019-20 and annually thereafter.

Under current law, a credit may be claimed for up to 20% of qualified rehabilitation expenditures for certified historic structures and for qualified rehabilitated buildings for taxable years beginning after December 31, 2013. The state credits act as supplements to federal credits, which result in a total credit of 40% for certified historic structures (buildings that have historic significance) and 30% for qualified rehabilitated buildings (constructed prior to 1936). For both credits, qualified rehabilitation expenditures are eligible if the rehabilitated structure is located in this state and the cost of the expenditure is at least \$50,000. Current law does not limit the amount of credits that may be claimed in a year, and the credits are not dependent on any specific amount of full-time jobs that may be created as a result of the rehabilitation. However, claimants must be certified by WEDC in order to claim the credits.

Joint Finance: Delete the provisions recommended by the Governor. Reduce estimated tax revenues under the bill by \$7,800,000 in 2016-17, \$15,600,000 in 2017-18, \$28,200,000 in 2018-19, and \$31,000,000 in 2019-20 and annually thereafter.

19. ELIMINATE THE SUPPLEMENT TO THE FEDERAL HISTORIC REHABILITATION TAX CREDIT FOR QUALIFIED REHABILITATED BUILDINGS [LFB Paper 324]

GPR-Tax	- \$1,000,000
---------	---------------

Governor: Sunset the supplement to the federal historic rehabilitation tax credit for qualified rehabilitated buildings on January 1, 2015. Specify that a person who has incurred qualified rehabilitation expenditures before January 1, 2015, could claim the credit for taxable years beginning after December 31, 2014, even if the property is not placed in service until after December 31, 2014. The administration does not anticipate a fiscal impact associated with this provision.

As noted in the previous entry, current law allows a supplement to the federal historic rehabilitation tax credit for up to 20% of qualified rehabilitation expenditures for certified

historic structures and for qualified rehabilitated buildings for taxable years beginning after December 31, 2013. The Governor's proposal would maintain the credit for certified historic structures, but would sunset the credit for qualified rehabilitated buildings. Under current law, "qualified rehabilitated buildings" are generally buildings that were constructed prior to 1936, but do not include certified historic structures or nonresidential property converted into housing if the property had previously been used for housing.

As also noted, claimants must be certified by WEDC in order to claim the credit. The Corporation placed a moratorium on certifying persons for the credit if the application was received after June 23, 2014, for both certified historic structures and qualified historic buildings. WEDC instituted the moratorium because utilization of the credits had been significantly greater than anticipated and, as a result, the revenue reduction to the state was substantially higher than had been expected. WEDC lifted the moratorium for certified historic structures on July 14, 2014. As of this writing, the moratorium on qualified rehabilitated buildings remains in effect. As a result, under the Governor's bill and assuming that WEDC's current moratorium were to remain in effect until these provisions were to be enacted, persons who would be eligible for credits on qualified rehabilitated buildings would be a person who: (a) was certified by WEDC prior to June 23, 2014; and (b) had incurred qualified rehabilitation expenditures of at least \$50,000 in calendar year 2014. According to the Corporation, WEDC has, to date, certified six persons as eligible for up to \$6.2 million of credits for qualified rehabilitation expenditures on qualified rehabilitated buildings and has entered into a letter of intent (but with whom the Corporation has not yet entered into a contract) with six other persons for up to an additional \$9.6 million of such credits.

Joint Finance: Delete the provisions recommended by the Governor. Instead, require WEDC to certify a person as eligible to claim the state supplement to the federal historic rehabilitation tax credit for qualified rehabilitated buildings if the following conditions apply: (a) the person has previously been certified by WEDC to receive a credit for a qualified rehabilitated building; (b) the proposed project is located in the City of Green Bay; (c) the proposed project for which the person applies for the supplement to the federal historic rehabilitation tax credit for a qualified rehabilitated building is on the same parcel as, or a parcel contiguous to, a project described under "a;" and (d) WEDC determines that the person that applies for the credit is eligible to claim the federal credit for the qualified rehabilitated building. Specify that this provision would first apply to taxable years beginning on January 1, 2015. Estimate decreased tax revenues of \$500,000 in 2015-16 and 2016-17.

20. MODIFY QUALIFICATION REQUIREMENTS FOR QUALIFIED NEW BUSINESS VENTURES [LFB Paper 326]

Governor: Modify current requirements for certification as a qualified new business venture (QNBV) for purposes of the angel and early stage seed investment credits as described below:

a. Specify that WEDC's policies and procedures must permit the Corporation to waive one or more of the current law requirements that a QNBV must: (1) be headquartered in this state; (2) have at least 51% of the employees employed by the business be employed in this state;

(3) have less than 100 employees at the time the business is initially certified; or (4) agree that it will not relocate outside Wisconsin during the three-years following an investment for which a person may claim the angel investment tax credit in Wisconsin. Prohibit WEDC from waiving these requirements unless WEDC's Board approves standards in the policies and procedures and the waiver complies with the Board's approved standards.

b. Specify that, for a business to be certified, it must have the potential for increasing jobs in this state, increasing capital investment in this state, or both, if, the manufacturing methods are enabled by applying, services that are enabled by applying, or pre-commercialization activity is related to, differentiating technology, rather than proprietary technology as under current law. According to the administration, this change would permit businesses that do not necessarily have patents or patentable technologies, such as software technology businesses, to potentially be certified as a QNBV.

c. Permit a business to be eligible as a QNBV if (in addition to other requirements under state law) the business has the potential for increasing jobs in this state, increasing capital investment in this state, or both, and the business: (1) is a technology-based physician or health care consulting business [a technical amendment would be needed to accomplish this intent]; or (2) is a retailer for whom at least 51% of its annual sales originate on the Internet.

d. Increase the maximum amount of investments that qualify for angel and early stage seed tax credits that a QNBV could receive at the time of certification or recertification, beginning with taxable years starting after December 31, 2014, from \$8 million to \$12 million.

The angel investment credit is available under the individual income tax and is equal to 25% of a claimant's bona fide angel investment made directly in a QNBV. The early stage seed investment credit is available under the individual income tax, corporate income/franchise tax, and insurance premiums tax and is equal to 25% of the claimant's investment to a certified fund manager that the fund manager subsequently invests in a QNBV. Fund managers and QNBVs must be certified by WEDC.

Joint Finance: Approve the provision described under "b," but delete the provisions described under "a," "c," and "d," above. In addition, specify that a person who is certified to be eligible as a QNBV, but subsequently expanded such that 51% or more of its employees or payroll is located outside the state while maintaining its Wisconsin investment and employment levels, is not considered to have relocated outside the state and is not subject to the current law clawback provisions.

21. QNBV REPAYMENT EXCEPTION [LFB Paper 325]

Governor/Joint Finance: Create an exception to the requirements that certain businesses must pay a penalty to WEDC if they relocate outside of Wisconsin after having received an investment for which an angel investment credit was claimed.

Under current law, in order to be certified as a QNBV, a business must agree that it will not relocate outside of this state during the three years after it receives an investment for which a

person may claim an angel tax credit and agrees to pay WEDC a penalty if it does so. A business relocates outside of this state when the business locates more than 51% of any of the following outside of this state: (a) its employees; (b) its total payroll; or (c) the activities of its headquarters, as determined by WEDC. The penalties are equal to 100% of angel tax credits claimed as a result of the investment if the relocation occurs within one year of certification; 80% if it occurs in the second year; or 60% if it occurs in the third year.

Under the bill, the above requirement would not apply to a business that WEDC certified before April 20, 2012, and that, in reliance on that certification, executed a note or bond that is convertible to an equity interest.

The above repayment requirements became law under 2011 Wisconsin Act 213 and took effect on April 19, 2012. Loans to QNBVs are not eligible for angel credits, unless the debt is later converted into an ownership interest. According to WEDC, certain companies could have received convertible loans prior to the effective date of Act 213 which could have been converted to equity after the repayment requirements took effect and the previously eligible QNBV had expanded in another state to the point where its total payroll outside the state exceeded 51%. The Governor's provisions are intended to prevent such QNBVs from being required to pay the current law penalties to WEDC.

22. MODIFICATIONS TO THE ANGEL AND EARLY STAGE SEED TAX CREDIT [LFB Paper 326]

Governor: Make the following changes to the angel and early stage seed investment tax credits. According to the administration, the proposed changes would have a minimal impact on state revenues.

a. Set the annual limit on the amount of angel and early stage seed investment tax credits that may be claimed at \$30.0 million. Under current law, WEDC, in consultation with DOR, must adopt rules to administer the credits. For tax years beginning after December 31, 2010, the rules must limit the aggregate amount of angel tax credits that may be claimed to \$20.0 million per year plus an additional \$250,000 for investments in nanotechnology businesses; and limit the aggregate amount of ESS credits that may be claimed at \$20.5 million per year plus an additional \$250,000 for investments in nanotechnology businesses. The bill would reduce the total limit for both credits from \$41.0 million to \$30.0 million per year.

b. Permit a person who is certified to claim an angel credit after December 31, 2014, to sell or otherwise transfer the credit to another person who is subject to the individual income tax, the corporate income/franchise tax, or the insurance premiums tax. Require the person who transfers the credit to notify WEDC and DOR of the transfer and submit with the notification a copy of the transfer documents. Under current law, the early stage seed credit may be transferred, but not the angel credit. As drafted, the bill would incorrectly apply the 2015 starting date to both the angel and early stage seed credits. An amendment is needed to achieve the administration's intent.

c. Increase the fee that WEDC may charge a person selling or otherwise transferring

an angel or early stage seed credit from an amount equal to 1% of the credit amount sold or transferred to 5% of that amount.

No fiscal effect is estimated for these provisions.

Joint Finance: Approve the Governor's recommendation described under "a" above. In addition, specify that: (a) unallocated angel investment credits and early stage seed investment credits from prior years may not be carried forward and issued in subsequent years; and (b) the existing balance of unallocated business investment credits from prior years may not be allocated by WEDC. Adopt the Governor's recommendation under "c" with a modification requested by the administration to specify that WEDC may charge a fee of up to 5% relating to the transfer of early stage seed investment credits. Delete the Governor's provision under "b" described above.

23. MANUFACTURING AND AGRICULTURE TAX CREDIT MODIFICATIONS [LFB Paper 321]

Governor: Make the following modifications to the manufacturing and agriculture tax credit (MAC) under the individual income tax, including the alternative minimum tax, and corporate income/franchise tax.

a. Specify that the numerator for the agriculture property factor is calculated using a claimant's real property and improvements that are assessed and valued under state property tax law as the following class of property: agriculture, undeveloped, agricultural forest, productive forest land, or other. Under current law, only property classified as agriculture property under state property tax law is included in calculating the numerator of the agriculture property factor. According to the administration, this provision would more accurately reflect how DOR has administered the credit.

b. Modify the definition of "direct costs" and "indirect costs" to specify that those costs include all of the claimant's ordinary and necessary expenses paid or incurred during the taxable year in carrying on the trade or business that are deductible as business expenses under the IRC, rather than such costs that are deductible under Section 162 of the IRC under current law. According to the administration, this provision would clarify DOR's interpretation that depreciation, which is listed under Section 167 of the IRC, is included as a direct or indirect cost for purposes of calculating qualified production activities income.

c. Specify that, when calculating the numerator under the manufacturing property factor, a claimant who DOR approves to be classified as a manufacturer under the state assessment of manufacturing property law who is not eligible to be listed on the Department's manufacturing roll until January 1 of the following year, may claim the credit in the year in which the manufacturing classification is approved. According to the administration, this provision would allow a manufacturer relocating or commencing operations in the state to be able to claim the credit in the year in which the manufacturer begins operations and DOR approves the classification as a manufacturer, rather than requiring the manufacturer to wait until the property is assessed as manufacturing property to claim the credit.

These provisions would first apply, and take effect, retroactively to January 1, 2013. The administration does not anticipate these provisions to have a significant effect on state tax revenues.

Joint Finance: Delete item "a" above from the biennial budget bill. After introduction of the bill, the administration indicated that this provision was inadvertently included in the bill. Maintain the current law calculation for the agriculture property factor.

24. DECREASE MANUFACTURING AND AGRICULTURE CREDIT IN 2015 GPR-Tax - \$16,800,000

Joint Finance: Reduce the MAC percentage from 5.526% to 5.025% for tax year 2015, but allow the percentage to increase to 7.5% in tax year 2016. Also, provide an exemption for the interest rate accrual for underpayment of estimated taxes if the taxpayer lowered their estimated tax payments for tax year 2015 under the assumption that the MAC percentage would have increased to the current law rate. Estimate increased state tax revenues of \$16,800,000 in 2015-16.

25. SUM SUFFICIENT REESTIMATE FOR THE WOODY BIOMASS HARVESTING AND PROCESSING TAX CREDIT [LFB Paper 319]

	Governor (Chg. to Base)	Jt. Finance (Chg. to Gov)	Net Change
GPR	- \$487,500	\$37,500	- \$450,000

Governor: Decrease funding by \$187,500 in 2015-16 and \$300,000 in 2016-17 for the sum sufficient appropriation for the woody biomass harvesting and processing tax credit to reestimate credit claims during the 2015-17 biennium. With the adjustment, estimated total funding would decrease from \$300,000, annually, to \$112,500 in 2015-16 and \$0 in 2016-17. Pursuant to 2013 Wisconsin Act 20, the credit sunset beginning in tax year 2015. The reduction reflects: (a) the estimated amount of remaining credits that will be claimed in 2015-16; and (b) that no remaining credits will be claimed in 2016-17. Prior to tax year 2015, the woody biomass harvesting and processing tax credit equaled 10% of the amount paid for equipment that was used primarily to harvest or process woody biomass that was used for fuel or as a component of fuel.

Joint Finance: Reestimate the sum sufficient appropriation for the woody biomass harvesting and processing investment credit at \$150,000 in 2015-16 and \$0 in 2016-17. Compared to the bill, the reestimate would increase the woody biomass harvesting and processing appropriation by \$37,500 in 2015-16.

26. INTEREST ON OVERPAYMENT OF TAXES GPR - \$2,500,000

Governor/Joint Finance: Decrease estimated payments from the sum sufficient

appropriation by \$1,250,000 annually to reflect payments estimated at \$1,250,000 annually. The amounts reflect the interest on taxes refunded to taxpayers due to an overpayment of individual and corporate income and franchise taxes, general sales and use taxes, and manufacturing property taxes.

27. CLAIM OF RIGHT CREDIT

GPR	\$114,000
-----	-----------

Governor/Joint Finance: Increase funding by \$57,000 annually for the sum sufficient appropriation for the claim of right credit. With these adjustments, base funding of \$170,000 would be increased to \$227,000 in each year. The credit is extended to taxpayers who must repay income on which taxes were paid in a prior year.

28. CONVERT DAIRY MANUFACTURING FACILITY INVESTMENT CREDITS FROM CONTINUING TO SUM SUFFICIENT APPROPRIATIONS [LFB Paper 320]

GPR	\$340,000
GPR-Lapse	\$1,450,000

Joint Finance: Convert the two dairy manufacturing facility investment credit appropriations for dairy cooperatives and for other entities from continuing appropriations to sum sufficient appropriations. Increase estimated general fund lapses by \$1,450,000 in 2015-16, and increase estimated GPR expenditures from the dairy manufacturing facility investment credit appropriation for other entities by \$340,000 in 2015-16. Pursuant to 2013 Wisconsin Act 20, both credits sunset beginning in tax year 2014. Both credits were refundable and were equal to 10% of the amount paid for modernizing or expanding dairy manufacturing operations.

Under the state's accounting system, the balance carried forward from one fiscal year to the following fiscal year in a continuing GPR appropriation is set aside for the appropriation's designated use and is not available for other uses. According to the State Comptroller's Office, converting a continuing GPR appropriation to a sum sufficient appropriation would lapse the carryover authority to the general fund. Net of estimated 2014-15 expenditures, the balance on July 1, 2015, for the dairy manufacturing investment credit; dairy cooperatives appropriation is estimated at \$1,450,000. These monies would become available in the general fund at the beginning of state fiscal year 2015-16 upon conversion of the appropriation.

The dairy manufacturing investment credit appropriation for other entities has, to date, exceeded the amount of credit claims that can be paid from its current expenditure authority. Credit claims are estimated to exceed available funding by \$240,000 in 2014-15 and \$100,000 in 2015-16. Once converted from a continuing GPR appropriation to a sum sufficient appropriation, credit claims could be paid to eligible claimants. It is estimated that expenditures from the dairy manufacturing investment credit appropriation for other entities would be \$340,000 in 2015-16.

29. SUM SUFFICIENT REESTIMATE FOR THE FOOD PROCESSING FACILITY AND FOOD WAREHOUSE INVESTMENT CREDIT [LFB Paper 319]

GPR	\$150,000
-----	-----------

Joint Finance: Reestimate the sum sufficient appropriation for the food processing facility and food warehouse investment credit to be \$150,000 in 2015-16 and \$0 in 2016-17. Compared to the Governor's bill, the reestimate would increase the food processing plant and food warehouse investment credit appropriation by \$150,000 in 2015-16. The reestimate would more accurately reflect the estimated remaining expenditures for eligible claims associated with the credit. Pursuant to 2013 Wisconsin Act 20, the credit sunset beginning in tax year 2014. Prior to tax year 2014, the credit was equal to 10% of the amount paid for food processing or food warehousing modernization or expansion.

30. SUM SUFFICIENT REESTIMATE FOR THE MEAT PROCESSING FACILITY INVESTMENT CREDIT [LFB Paper 319]

GPR	\$100,000
-----	-----------

Joint Finance: Reestimate the sum sufficient appropriation for the meat processing facility investment credit at \$100,000 in 2015-16 and \$0 in 2016-17. Compared to the Governor's bill, the reestimate would increase the meat processing facility investment credit appropriation by \$100,000 in 2015-16. The reestimate would more accurately reflect the estimated remaining expenditures for eligible claims associated with the credit. Pursuant to 2013 Wisconsin Act 20, the credit sunset beginning in tax year 2014. Prior to tax year 2014, the credit was equal to 10% of the amount paid for meat processing modernization or expansion related to a meat processing operation.

31. CLARIFICATION OF THE ECONOMIC DEVELOPMENT TAX CREDIT STATUTES [LFB Paper 322]

Joint Finance: Delete the reference to reallocations of unused angel and early stage seed credits in the economic development tax credit statutes. According to the Legislative Reference Bureau, the incorrect reference was the result of a drafting error that was included in Substitute Amendment 1 to 2009 Senate Bill 409 (2009 Act 265).

32. BUSINESS TAX CREDIT NOTIFICATION REQUIREMENTS [LFB Paper 323]

Joint Finance: Delete the following statutory reporting requirements for when WEDC must notify DOR of when the Corporation certifies or revokes a certification under its business tax credit programs:

a. *Enterprise Zones Credit.* WEDC must notify DOR when the Corporation certifies a business to receive the credit. Within 30 days after a certification is revoked, WEDC must notify DOR of the revocation.

b. *Jobs Tax Credit.* WEDC must notify DOR when the Corporation certifies a business

to receive the credit and must notify DOR within 30 days of revoking a person's certification for credits. Additionally, WEDC must determine the maximum amount of tax credits that a certified business can claim and notify DOR of this amount.

c. *Economic Development Credit.* WEDC must provide DOR with a notice of eligibility to receive tax credits that reports the amount of credits for which the person is eligible. The Corporation must notify DOR of a revocation of the credits, including the value of the tax credits for which the person is liable.

d. *Early Stage Seed Investment Credit.* WEDC must notify DOR of every certification of an investment fund manager that is eligible to invest in a qualified new business venture that is certified by WEDC. The Corporation must also notify DOR of the date on which any certification is revoked or expires.

e. *Angel Business Investment Credit.* WEDC must notify DOR of every business certified as a QNBV. The Corporation must also notify DOR of the date on which any certification is revoked or expires.

f. *Development Opportunity Zones Credit.* WEDC must notify DOR of all persons entitled to claim the credit and must notify the Department within 30 days after revoking the entitlement of a person to claim the credit.

g. *Supplement to the Federal Historic Rehabilitation Credit.* WEDC must notify DOR, no later than January 15 of each year, of the amount of credits certified and the name, address, and tax identification number of each person certified to claim the credit. WEDC must notify DOR of any revoked certification no more than two months after the revocation date.

Delete the provision under the Governor's bill that would have required the Forward Wisconsin Development Corporation (FWDA) to notify DOR, on at least a quarterly basis, when FWDA certifies a person to receive credits. FWDA would also have had to notify DOR within 30 days of revoking a certification for the credit. [As introduced by the Governor, WEDC would have been merged into the proposed entity FWDA beginning January 1, 2016, or on the day following publication of the bill, whichever is later. The proposed merger was deleted from the bill and is described under "Forward Wisconsin Development Authority."]

Instead, require WEDC to provide the following information to DOR regarding each tax credit that is jointly administered by the two agencies: (a) certification of a person for tax benefits; (b) amount of tax benefits certified; (c) revocation of a certification for tax benefits; (d) amount of tax benefits revoked; (e) verification that a certified person has completed the activities required in order for the person to claim a credit; (f) amount of credit that may be claimed as a result of the verification; (g) a list of the businesses and individuals that will be eligible to claim the credit following the verification, including owners of pass-through entities; (h) the taxable years of such businesses and individuals; (i) amount of tax credits that have been claimed but must be repaid; and (j) any other information DOR and WEDC determine is necessary to accurately track certification and usage of the tax credits. Require that this information be provided for transferred credits as well as for credits that have not been transferred.

Require businesses that WEDC certifies to receive tax credits to provide any information necessary for the Corporation to comply with the above requirements. Require DOR to track the amount of credits jointly administered with WEDC that have been claimed and used to offset tax liability, and the amount of any available unused credits. Specify that WEDC must provide the above information to DOR by the last day of the first month following the close of each calendar quarter for certifications, revocations, verifications, transfers, or determinations by WEDC that a credit must be repaid, that occurred in that calendar quarter.

33. REPEAL EXCLUSION FOR JOB CREATION

GPR-Tax	\$5,400,000
---------	-------------

Joint Finance: Beginning in tax year 2015, repeal the current law exclusion from income under the individual income tax and the corporate income/franchise tax for increased employment in Wisconsin equal to: (a) \$4,000 multiplied by the increase in the number of full-time equivalent (FTE) employees for businesses with gross receipts of \$5 million or less in the tax year; or (b) \$2,000 per FTE employee for businesses with gross receipts of \$5 million or more. Increase estimated state tax revenues by \$2,700,000 in 2015-16 and annually thereafter.

34. ANGEL INVESTMENT TAX CREDIT DEFINITION

Joint Finance: Modify the definition of "bona fide angel investment" to include the purchase of a note or bond that is convertible to an equity interest. Specify that this provision would first apply to bona fide angel investments made in taxable years beginning on January 1, 2016. Reduce estimated state tax revenues by a minimal amount.

Under current law, the angel investment tax credit may be claimed under the individual income tax, including the alternative minimum tax. The credit is equal to 25% of the claimant's bona fide angel investment made directly in a QNBV that is certified by WEDC. "Bona fide angel investment" means a purchase of an equity interest, or any other expenditure, as determined by rule, that is made by a person who reviews new businesses or proposed new businesses for potential investment of the person's money, or by a network of such persons under current law. This provision would specify that a "bona fide angel investment" also includes the purchase of a note or bond that is convertible to an equity interest.

With the current law definition, an angel credit may be claimed when a convertible debt investment in a QNBV is converted to an equity interest. Under the Joint Finance provision, a credit could be claimed at the time a convertible debt investment is made in a QNBV.

35. MODIFICATIONS TO THE RESEARCH CREDIT

Joint Finance: Modify the methodology for calculating the state research credit to be equal to 5.75% of the amount by which the claimant's qualified research expenses for the taxable year exceed 50% of the claimant's average qualified research expenses for the three preceding years. Specify that the credit is equal to 2.875% of the current year's qualified research expenses if the claimant had no qualified research expenses in one or more of the three preceding years. For

research related to internal combustion engines, including vehicles powered by such engines, and energy efficient lighting systems, building automation and control systems, or automotive batteries, specify that the methodology for calculating the state research credit must use a higher percentage (11.5% and 5.75%, respectively), as compared to other qualified research expenses. Specify that this provision first applies to taxable years beginning after December 31, 2014. Estimate this provision to have a minimal effect on state revenue; however, certain taxpayers may experience net tax increases or decreases as a result of this provision.

Current law provides a nonrefundable research credit which may be claimed under the individual income tax, including the alternative minimum tax, and the corporate income/franchise tax. In general, the credit is equal to 5% of the amount obtained by subtracting the claimant's "base amount" from the claimant's qualified research expenses. The credit percentage is 10% for research expenses related to designing internal combustion engines, including vehicles powered by such engines, and for research related to the design and manufacturing of energy efficient lighting systems, building automation and control systems, or automotive batteries for use in hybrid-electric vehicles. In general, the terms "qualified research expenses" and "base amount" are the same as the definitions used for a similar federal tax credit. To determine the credit, taxpayers must perform a complicated series of calculations. This provision would provide a simplified methodology for taxpayers to claim the credit, as compared to current law.

Sales and Excise Taxes

1. SALES AND USE TAX NEXUS CREATING ACTIVITIES [LFB Paper 334]

Governor: Modify the statutory definition of "retailer engaged in business in this state" for purposes of the use tax as described below.

Under current law, "retailer engaged in business in this state" means any of the following:

- a. Any retailer owning any real property in this state or leasing or renting out any tangible personal property, or other taxable items or property, located in this state or maintaining, occupying or using, permanently or temporarily, directly or indirectly, or through a subsidiary, or agent, by whatever name called, an office, place of distribution, sales or sample room or place, warehouse or storage place or other place of business in this state.
- b. Any retailer having any representative, agent, salesperson, canvasser or solicitor operating in this state under the authority of the retailer or its subsidiary for the purpose of selling, delivering or the taking of orders for any tangible personal property, or other taxable items or taxable services.
- c. Any retailer selling tangible personal property, or other taxable items or services for storage, use, or other consumption in this state, unless otherwise limited by federal law.

d. Any person who has an affiliate in this state, if the person is related to the affiliate and if the affiliate uses facilities or employees in this state to advertise, promote, or facilitate the establishment of or market for sales of items by the related person to purchasers in this state or for providing services to the related person's purchasers in this state, including accepting returns of purchases or resolving customer complaints. The statutes include additional detail defining "related persons."

The bill would not modify items "c" or "d".

Under the bill, retailers leasing or renting out property in this state would have nexus under "a" above if the lease or rental is sourced to this state rather than if the rented property is located in this state.

The provision under "b" regarding a retailer having any representative, agent, salesperson, canvasser or solicitor operating in this state would specifically include a manufacturer's representative. In addition, this provision would apply to representatives or agents performing other activities described in the nexus statutes, in addition to selling, delivering or taking orders for any taxable goods or services. This provision would also create nexus if the agent is performing the identified activities as they relate to nontaxable services.

The bill would also add the following to the nexus statute: (a) any person servicing, repairing, or installing equipment or other tangible personal property or taxable goods in Wisconsin; (b) any person delivering taxable goods into Wisconsin in a vehicle operated by the person that sells the items that are delivered; and (c) any person performing construction activities in Wisconsin. These provisions are currently stated in DOR administrative rules. The fiscal effect of these provisions is expected to be minimal.

Joint Finance: Modify the Governor's recommendation to make a technical revision clarifying that the property location rather than the source of the lease controls the creation of nexus.

2. SALES TAX: DISTRIBUTION FACILITIES

Governor/Joint Finance: Clarify in the statutes that the operator of a distribution facility selling tangible personal property on behalf of a third-party seller is not a "retailer" for the purpose of imposing and collecting the state sales and use tax. Third-party sellers using distribution facilities in the state would still be considered retailers and would remain liable for Wisconsin sales or use tax on their sales of taxable products when the sales take place in Wisconsin. According to DOR, these provisions are consistent with its current interpretation of the rules and statutes. The fiscal effect of these provisions is expected to be minimal.

Definitions. Define the following terms.

"Affiliate" as a person that directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, another person. For purposes of this provision, a person controls another person if that person holds at least 50% ownership

interest in the other person.

"Distribution facility" as an establishment where tangible personal property is stored and processed for delivery to customers and where no retail sales of the property are made.

"Third-party seller" as a person who owns tangible personal property who enters into a contract with a "retailer" (defined below) for the sale of the tangible personal property and who is not an affiliate of the "retailer."

"Retailer" would not include a person, or the person's affiliates, making sales of tangible personal property or other taxable items if all of the following apply: (a) the person or any of the person's affiliates operates a distribution facility; (b) the person or any of the person's affiliates sells the tangible personal property on behalf of a third-party seller; (c) the third-party seller owns the tangible personal property or items and is disclosed to the customer as the seller; and (d) neither the person nor any affiliate of the person makes any sales for which the customer takes possession of the tangible personal property at a location operated by the person or any of the person's affiliates.

This exclusion would not apply to sales at auction; sales of tangible personal property or other taxable items owned or previously owned by the person operating the distribution facility or by any of the person's affiliates; or the sales of any of the following that are registered or titled, or required to be registered or titled, under the laws of this state, or of the United States: (a) motor vehicles, (b) aircraft, (c) snowmobiles, (d) recreational vehicles, (e) trailers, (f) semitrailers, (g) all-terrain vehicles, (h) utility terrain vehicles, and (i) boats.

3. DELAY THE EFFECTIVE DATE FOR 2013 WISCONSIN ACT 229

GPR-Tax	\$21,800,000
---------	--------------

Governor: Change the effective date of Wisconsin Act 229 from July 1, 2015, to July 1, 2017. This would delay provisions contained in Act 229 which allow a retailer to claim a deduction or a refund of sales taxes related to bad debt of an affiliated lender that extends credit through a private label credit card, dual purpose credit card, or dealer credit program. Delaying the effective date for this provision would increase state sales tax revenue by an estimated \$10,700,000 in 2015-16 and \$11,100,000 in 2016-17.

Joint Finance: Specify that the Governor's recommendation to delay the effective date for 2013 Act 229 from July 1, 2015, to July 1, 2017, would take effect on June 30, 2015, instead of on the general effective date of the budget bill. In addition, specify that the Act 229 provisions would first apply to bad debts resulting from sales completed beginning on July 1, 2017. This change would also take effect on June 30, 2015.

4. REESTIMATE CIGARETTE AND TOBACCO PRODUCTS TAX REFUNDS

GPR	\$4,460,000
-----	-------------

Governor/Joint Finance: Increase funding for cigarette and tobacco products tax refunds

by \$1,380,000 in 2015-16 and \$3,080,000 in 2016-17 to reflect higher estimates of the sum sufficient appropriation amounts required to reimburse Native American tribes under present law. With these adjustments, estimated total funding in the cigarette and tobacco products tax refunds appropriation would increase to \$36,680,000 in 2015-16 and \$38,380,000 in 2016-17. Under current law, for sales that occur on reservations or trust lands, the tribes receive a refund of 100% of the excise tax on cigarettes sold to Native Americans and 70% of the tax on sales to non-Native Americans. For tobacco products sold on reservations or trust lands, the tribes receive a refund of 100% of the tax on products sold to tribal members and 50% of the tax on products sold to non-Native Americans.

5. INCREASE CIGARETTE TAX MANUFACTURER'S DISCOUNT

GPR-Tax	- \$1,100,000
---------	---------------

Joint Finance: Increase the cigarette tax stamp discount from 0.7% to 0.8% for cigarette manufactures, bonded direct marketers, and distributors, effective on the first day of the third month beginning after publication of the bill. It is estimated that this provision would reduce state revenues by \$500,000 in 2015-16 and \$600,000 in 2016-17.

6. IMPOSE HARD CIDER TAX ON PEAR CIDER

GPR-Tax	- \$375,000
---------	-------------

Joint Finance: Impose the hard cider tax, instead of the wine tax, on hard cider made from pears. Effective January 1, 2016, this provision would decrease estimated state tax collections by \$125,000 in 2015-16 and by \$250,000 in 2016-17.

7. SALES TAX EXEMPTION FOR CONSTRUCTION MATERIALS

GPR-Tax	- \$11,000,000
---------	----------------

Joint Finance: Create a sales and use tax exemption for goods sold to construction contractors who, in fulfillment of a real property construction activity, transfer the goods to school districts, municipalities, and nonprofit entities, if such goods become a component of a facility in this state that is owned by the entity.

Specify that eligible nonprofit entities would include those that are organized and operated exclusively for religious, charitable, scientific or educational purposes, or for the prevention of cruelty to children or animals, except hospital service insurance corporations.

Define "facility" as any building, shelter, parking lot, parking garage, athletic field, athletic park, storm sewer, or water supply system, but not a highway, street, or road.

Specify that these provisions would take effect on January 1, 2016, and first apply to construction contracts entered into on that date. It is estimated that this provision would reduce revenues by \$3,500,000 in 2015-16 and \$7,500,000 in 2016-17.

8. SALES TAX EXEMPTION FOR DEER SOLD TO GAME FARMS OR HUNTING PRESERVES

GPR-Tax	- \$210,000
---------	-------------

Joint Finance: Exempt the sales of farm-raised deer that are sold to a person who is operating a hunting reserve or game farm in Wisconsin from the state sales and use tax.

Specify that the exemption would be effective January 1, 2016. It is estimated that this provision would reduce state revenues by \$70,000 in 2015-16 and \$140,000 in 2016-17.

9. SALES TAX EXEMPTION FOR AMUSEMENT DEVICE PROCEEDS

GPR-Tax	- \$300,000
---------	-------------

Joint Finance: Specify that, with regard to taxable sales on access to or the use of an amusement device, the state sales and use tax only be imposed on the sales of playing time on the device. To the extent that playing time on an amusement device derives from playing specified digital goods ("specified digital goods" means digital audio works, digital audiovisual works, and digital books under current law) or additional digital goods ("additional digital goods" includes video or electronic games under current law) on the device, the state sales and use tax would not apply.

Define "amusement device" as a pool table, video game machine, video gambling machine, dart board, pinball machine, foosball table, air hockey table, shuffleboard table, or jukebox.

Specify that the exemption would be effective January 1, 2016. It is estimated that this provision would reduce state revenues by \$100,000 in 2015-16 and \$200,000 in 2016-17.

Regulation of Alcohol Beverages

1. RETAIL ALCOHOLIC BEVERAGE LICENSE MODIFICATIONS

Joint Finance: Allow a municipality that has reached its "Class B" license (on-premises sales of liquor) quota to obtain a "Class B" license if the municipality that has reached its quota pays a nonrefundable fee of \$10,000 to a contiguous municipality that has not reached its quota. Specify that, upon payment of the fee, the transferred license would be under the jurisdiction of the receiving municipality and would be renewed under existing law. Permit, but do not require, municipalities with available licenses to transfer an available license to a contiguous municipality under these provisions. Permit a municipality to transfer or receive more than one license as long as each transfer meets the requirements under these provisions. Prohibit dry municipalities (municipalities that have not issued a "Class B" license) from transferring available licenses under these provisions.

Specify that the \$10,000 fee paid for a reserve "Class B" license may not be rebated or refunded to the licensee by the municipality that issued the license.

Delete a current provision that permits municipalities that have reached their quotas to issue a "Class B" license to a full-service restaurant that has a seating capacity of 300 or more persons.

Prohibit a winery from being issued a Class "B" license (on-premises sales of beer) after the effective date of the budget bill.

2. RETAIL SALES OF HARD CIDER

Joint Finance: Specify that a municipality may issue a "Class A" liquor license to an applicant if: (a) the application is made for a "Class A" license containing the condition that retail sales of intoxicating liquor are limited to hard apple and pear cider, and (b) the applicant holds a Class "A" beer license for the same premises. In addition, restrict a person issued a license under this provision from selling, or provide taste samples, of any intoxicating liquor other than cider. There would be no annual fee or initial issuance fee for a "Class A" license issued under the provision.

3. "CLASS B" LIQUOR LICENSE QUOTA EXEMPTION

Joint Finance: Provide one additional "Class B" liquor license to the Town of Wyoming in Iowa County in addition to the number of licenses determined for the town's "Class B" license quota. Specify that: (a) the Town may not establish an initial issuance fee or an annual fee for the new license that exceeds \$500; (b) the new license must be issued within six months after the effective date of the budget bill; and (c) if the license is surrendered, not renewed, or revoked, the Town may not reissue the license.

4. MODIFY DOR AUTHORITY TO ISSUE A RETAIL ALCOHOL PERMIT

Joint Finance: Require DOR to issue a retail beer and intoxicating liquor license to an American Indian tribe in this state that has a reservation encompassing not less than 60,000 acres nor more than 70,000 acres and that meets any of the following provisions: (a) the tribe held a retail beer and intoxicating liquor license that was not renewed or suspended or revoked for grounds unrelated to certain license qualification standards for individuals, operators, managers and corporations, or (b) the tribe held a retail beer and intoxicating liquor license that was not renewed or was suspended or revoked for grounds related to certain license qualification standards for individuals, operators, managers and corporations, and the nonrenewal, suspension, or revocation was reversed by court order.

Under current law, DOR is required to issue a retail beer and intoxicating liquor license to an American Indian tribe in this state having a reservation encompassing not less than 60,000 acres nor more than 70,000 acres.